



SALDANHA BAAI
MUNISIPALITEIT | MUNICIPALITY | uMASIPALA BAY

ANNUAL BUDGET 2018/19 MTREF

31 May 2018



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PART 1 – ANNUAL BUDGET

1. Section 1 - Mayor's budget speech

The Mayor's budget speech for the 2018/19 Medium Term Budget and Expenditure Framework (MTREF) will be handed on 31 May 2018 during the Council meeting, where the budget will be considered for adoption by Council.

1.1 Summary of material amendments made to the tabled budget after the consultation process

A notice to inform the public of the tabled budget as well as to invite written submissions or representations to the municipality on the draft budget was published in the Weslander of 5 April 2018 as well as on the municipal website.

The notice was placed in the newspaper for two consecutive weeks.

Eighteen public consultation meetings were held in towns from 3 April to 10 April 2018.

Only one written representations attached in Annexure "L" have been received. The input was carefully considered by the Mayor, Council and management at a budget workshop that took place on 3 May 2018.

All the responses to the inputs received are provided in the Annexure. It was resolved that IDP inputs will be considered during a separate IDP workshop.

The LGMTEC assessment received from Provincial Treasury is attached as Annexure "M".

The following omissions and errors have been detected and had to be rectified:

The capital budget was adjusted as follow:

Table 1- Adjustments to Capital budget

Description	2018/19 Budget	2019/20 Budget	2020/21 Budget	Explanation
Tabled Budget: March 2018	328 070 596	195 292 935	251 474 244	
Adjustment	1 069 838	-	-	Housing grant adjustment.
Final Budget May 2018	329 140 434	195 292 935	251 474 244	

The operating budget was adjusted as follow:

Table 2: Adjustments to Operating budget

	2018/19 Tabled budget	Adjustment	2018/19 Final Budget	Explanation
<u>REVENUE</u>				
Property rates	215,750,383	-	215,750,383	
Service charges -Electricity	334,521,441	-	334,521,441	
Service charges -Water	150,867,418	-	150,867,418	
Service charges -Sanitation	62,635,103	-	62,635,103	
Service charges -Refuse	66,487,654	-	66,487,654	
Rental of facilities and equipment	6,232,677	-	6,232,677	
Interest earned-external investments	41,310,024	-	41,310,024	
Interest earned-outstanding debtors	13,069,980	-	13,069,980	
Traffic fines	41,519,725	-	41,519,725	
Licences and permits	1,148,031	-	1,148,031	
Agency services	5,300,000	-	5,300,000	
Grants recognised – operational	94,075,050	-	94,075,050	
Other revenue	31,916,802	-	31,916,802	
Revenue before capital grants	1 064 834 288		1 064 834 288	
Plus: Capital grants and donations	45,248,660	1,069,838	46,318,498	Housing grant adjustment
Revenue after capital grants and donations	1,110,082,948	1,069,838	1,111,152,786	

	2018/19 Tabled budget	Adjustment	2018/19 Final Budget	Explanation
LESS: EXPENDITURE				
Employee related costs	362,612,887	-	362,612,887	
Remuneration of councillors	12,153,717	-	12,153,717	
Bad debts Written-off	56,069,710	-	56,069,710	
Depreciation & amortisation	140,762,315	-	140,762,315	
Finance charges	21,100,000	-	21,100,000	
Bulk purchases	329,426,674	-	329,426,674	
Contracted services	110,635,659	-	110,635,659	
Transfers and grants	3,722,174	-	3,722,174	
Other expenditure	72 010 631	-	72 010 631	
Operating material	40 758 518	-	40 758 518	
Total Expenditure	1 149 252 285	-	1 149 252 285	
Deficit	(39 169 337)	1 069 838	(38 099 499)	

Some of the **tariff** descriptions (wording) for sewerage services and property rates has been adjusted. The sundry tariffs that includes VAT has been adjusted to make provision for the increase of the VAT percentage from 14-15%.

2. Section 2 - Resolutions

It is recommended –

1. That Council approves the annual budget of the municipality for the financial year 2018/19 and the two outer years 2019/20 and 2020/21 as per **Annexure A** (Budget schedules A1 to A10 and SA1 to SA 38), **Annexure B** (capital budget per department and per funding source) and **Annexure C** (capital budget per ward);
2. That Council approves the property rates and tariffs as contained in **Annexure D** for the 2018/19 budget year;
3. That Council takes note that the electricity tariffs as included in **Annexure D** has not yet been approved by NERSA;
4. That Council takes note of the sensitivity analysis of the proposed tariff increases on domestic households as per **Annexure E**;

5. That Council takes note of MFMA Budget Circular 91 attached as **Annexure F**;
6. That Council takes note of the quality certificate signed by the Municipal Manager as per **Annexure G**;
7. That Council approves the updated budget related policies attached in **Annexure H**;
8. That the service standards attached as **Annexure I** be approved;
9. That Council take note of the operating expenditure, capital expenditure and revenue per strategic objective linked to cost centres as included in **Annexure J**;
10. That Council take note of the list of projects funded from external loans, attached as **Annexure K**;
11. That it be noted that the cost of borrowing over the 2018/19 MTREF might possibly exceeds the 25% limitation as required in the borrowing policy of the municipality;
12. That Council takes note that version 6.2 of the mSCOA classification framework was used to prepare the budget;
13. That Council take note of the of the public input as received on the draft budget including management's response included and attached as **Annexure L**, and
14. That Council takes note of the LGMTEC comments received from Provincial Treasury as well as management's response included in the report attached as **Annexure M**

3. Section 3 - Executive summary

3.1 Introduction

When reflecting back on the last 12 months, much has happened in South Africa, such as the implementation of mSCOA on 1 July 2017, the drought in the Western Cape, the Knysna fires, economic downgrades, the Life Esidimeni tragedy, a number of corporates implicated in corrupt dealings such as Steinhoff, Oakbay and KPMG, a newly elected President of South Africa, Mr Cyril Ramaphosa, to name a few.

On the international front, big stories that surfaced was US President Donald Trump's policy of "America First", ISIS that suffered set-backs in Syria and Iraq

only to unleashed attacks in Europe and across the world, the humanitarian crisis in Yemen, America's tensions with North Korea with its leader Kim Jong Un, which made no secret that his scientists are working on a long range nuclear missile capable of reaching the US, and the intensified world-wide focus on climate change.

On the local economic front, the recent political changes in the ANC and cabinet was received as positive by the local and international markets.

The Minister of Finance, in his national budget speech on 21 February 2018 announces Revenue of R1 491 billion, Expenditure of R1 671 billion, with a budget deficit of R180 billion for 2018/19. The deficit will comprise of 4.3% of GDP in 2018/19, but it is expected to narrow to 3.5% in 2022/23. The debt position of South Africa has been on an upward curve for some time now. The net debt should stabilise at 53% of GDP in 2023/24. The debt servicing cost for 2018/19 will amount to R180.1 billion. The borrowing requirement for 2018/19 will be R224 billion.

The National Treasury expects growth in the South African economy to be 1.5% this year, 1.8% in 2019 and 2.1% in 2020.

The inflation outlook is expected to average 5.3% in 2018/19, 5.4% in 2019/20 and 5.5% in 2020/21.

Statistics South Africa's December 2017 economic statistics showed an unexpected improvement in the economic outlook, largely as a result of growth in agriculture and mining. The main risks to the economic outlook are continued policy uncertainty and deterioration in the finances of state-owned entities. The drought experienced in several provinces poses significant risks to agriculture and tourism for the period ahead, and this may threaten jobs in these sectors.

The current water crisis in the Western Cape and other provinces will affect economic growth. While the drought's impact is uncertain much depends on how long it will prevail; the extent to which specific catchment areas are affected; and the success of mitigation measures.

The Premier of the Western Cape, in her State of the Province Address on 22 February 2018, emphasised the water crisis in the Western Cape. She reiterated that, although the bulk water supply is a national mandate, the National Department of Water and Sanitation has not made funding available for augmentation in this crisis. An amount of R6 billion was appropriated in the National Budget, but given the magnitude of the problem, this will not be sufficient.

The first review of the fourth generation Integrated Development Plan (IDP) will be considered by Council on 28 March 2018.

The Council has reviewed its organisational personnel structure and the details of this is included in a separate agenda item to Council, also on 28 March 2018.

A high level summary of the 2018/19 MTREF is provided in table 3 below:

Table 3 – High level summary of the 2018/19 MTREF

	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Capital expenditure	319 470 531	329 140 434	195 292 931	251 474 244
Operating expenditure	1 052 102 875	1 149 252 285	1 227 915 326	1 292 659 416
Total expenditure	1 371 573 406	1 478 392 719	1 423 208 257	1 544 133 660
Operating Revenue	906 941 476	970 759 238	1 037 787 176	1 098 228 732
Grants	190 677 728	140 393 548	138 592 297	178 215 994
Total Revenue	1 097 619 204	1 111 152 786	1 176 379 473	1 276 444 726

3.2 Municipal Regulations on a Standard Chart of Accounts (mSCOA)

The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette notice no. 37577 on 22 April 2014. This is arguably the biggest reform of Local Government since 1994. It impacted the business processes of the entire municipality and everyone had to change and adapt.

The municipality has used version 6.2 of the mSCOA classification framework to prepare its 2018/19 MTREF budget and A schedules.

The 2018/19 MREF is the second budget that the municipality has prepared in terms of the mSCOA classification framework.

3.3 Water crisis

The water crisis has affected Saldanha Bay municipality to a great extent, and, at the date of this report, level 6B water restrictions is in place, which requires a water saving of between 45% - 60% from consumers.

The average daily water usage by the consumers of Saldanha Bay Municipality was 27 ML water per day in February 2018. At the same comparative period last year, it was 37 ML per day. In December 2017 it was 30 ML per day.

The municipality draws its water from the Misverstand dam. This dam is in effect a weir and is dependent on water releases from either the Voëlvlei dam or Bergriver dam. From Misverstand the water is then pumped to the treatment works at Withoogte.

Misverstand dam only has a supply capacity of 6 500 ML, which is only 4% the size of Voëlvlei dam, with a capacity of 164 095 ML.

Currently, Saldanha Bay Municipality, Velddrif, Moorreesburg, Koringberg, Piketberg and consumers receive water from the Misverstand Dam.

The West Coast District Municipality is the water service provider of Saldanha Bay Municipality.

Saldanha Bay municipality is currently investigating its water service delivery mechanism in terms of section 78 of the Municipal Systems Act, Act 32 of 2000. This investigation focuses on the best mechanisms of how the water service should be delivered, internally by the municipality, or externally by the West Coast District Municipality. It is foreseen that this investigation will be completed by 30 June 2019.

A summary of some of the dam levels statistics on 7 March 2018 is provided in **table 4** below. The winter rain season generally only starts in May annually.

In **table 5** below, the general water consumption by type of consumer for Saldanha Bay municipality, is provided.

Table 4 – Dam levels statistics on 7 March 2018

<u>Dams</u>	<u>Capacity ML¹</u>	<u>7 March 2018</u>
Berg River	130 010	50%
Voëlvlei	164 095	15%
Wemmershoek	58 644	44%
Steenbras lower	33 517	38%
Steenbras upper	31 767	93%
Theewaterskloof	480 188	11%
Stored	898 221	24%

The Misverstand Dam level was 45% on 7 March 2018.

Table 5 – Water consumption by type of consumer

<u>Type of consumer</u>	<u>Water usage percentage</u>
Domestic	38%
Wet industries	33%
Business	6%
Schools	5%
Other government institutions	4%
Agriculture	4%
Departmental	4%
Langebaanweg	3%
Other industries	2%
Apartments and town houses	1%

3.4 Water projects for 2018/19 MTREF

A total of R430.3 million is budgeted for water projects over the 2018/19 MTREF. This will be financed through a combination of funding sources, of which R170 million will come from external borrowings.

¹ 1 000 000 litres equates to 1 megalitre (ML).

1 000 kl equates to 1 ML

1 000 litres equates to 1 kl

A summary of the 2018/19 MTREF water projects is provided in table 6 below.

Table 6 – Summary of 2018/19 MTREF water projects

<u>Water projects</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>Total</u>
Paternoster Water Pipeline (CRR)	250 004	9 250 000	-	-	9 500 004
Louwville Houses 200 Units Water (Grant)	76 000	-	-	-	76 000
St Hele Laingville UISP Water (Grant)	1 036 615	-	-	-	1 036 615
Ongegund 28 Units - Water (Grant)	131 600	-	-	-	131 600
Services Emergency Housing Water (CRR)	576 144	-	-	-	576 144
Paternoster Water Reservoir 3 MI (CRR)	-	4 999 996	-	-	4 999 996
Bulk Supply Network Improv (CRR)	1 276 851	-	-	-	1 276 851
Refurbish Shelly Point Desalination Plan (CRR)	2 500 000	2 000 000	-	-	4 500 000
Langebaan Road Aquifer – Well Field 1 (CRR)	38 000 000	-	-	-	38 000 000
Langebaan Road Aquifer – Well Field 1 (Grant)	21 310 000	-	-	-	21 300 000
Renew Hoogland Pumpstation (CRR)	418 750	-	-	-	418 750
390-Refurbish Shelly Point Desalination Plan (MDRG)	2 000 000				2 000 000
Besaansklip Reservoir-IDZ (Donation)	33 627 224	-	-	-	33 627 224
Management of Misverstand Dam Cap and Abstraction (CRR)	2 500 000	-	-	-	2 500 000
Additional 30 MI Capac Meeuwklip Reservoir (Loan)	-	-	11 999 996	-	11 999 996
St Hele Laingville UISP Water (Grant)	-	944 965	-	-	944 965
Louwville 200 : Services : GAP: Water (Grant)	-	-	1 107 753	-	1 107 753
Witteklip 1155 (132) : Services : IRDP: Water (Grant)	-	-	728 401	-	728 401
Saldanha Site A (Middelpos) : Services : UISP:Water (Grant)	-	-	-	1 290 096	1 290 096

<u>Water projects</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>Total</u>
Langebaan 438 : Services : GAP: Water (Grant)	-	-	-	2 416 971	2 416 971
Witteklip 240 : Services : IRDP: Water (Grant)	-	-	-	1 323 332	1 323 332
Middelpos Site A1 (Middelpos) :1301 (Grant)	-	-	-	606 000	606 000
Water Urban Revitalisation N (Grant)	-	10 000 000	-	-	10 000 000
Meeuwklip Reservoir (CRR)	-	500 000	-	-	500 000
Bulk Supply Network Improvements (Loan)	-	-	999 996	-	999 996
Bulk Supply Network Improvements (CRR)	-	4 000 000	-	-	4 000 000
Langebaan Road Aquifer - Well field 2 (CRR)	2 000 000	28 000 000	-	-	30 000 000
Laingville Bulk Supply And Network Upgrade (Loan)	-	-	-	150 000	150 000
Replace Water Meters (CRR)	-	4 000 000	-	4 000 000	8 000 000
Replace Water Meters (Loan)	-	-	4 000 000	-	4 000 000
Upgrade VBG Supply Pump Station (CRR)	-	-	-	1 800 000	1 800 000
Pressure Management (CRR)	-	3 000 000	-	3 000 000	6 000 000
Pressure Management 1 (Loan)	-	-	3 000 000	-	3 000 000
Langebaan Road Aquafer – Well field 2 (CRR)	-	67 500 000	-	-	67 500 000
Withoogte WTW Phase 1, 2 & 3 (Loan)	-	-	500 000	20 000 000	20 500 000
Withoogte Raw Water Off-channel DAM (Loan)	-	2 500 000	-	-	2 500 000
Withoogte Raw Water Off-channel DAM (Loan)	-	-	35 000 000	40 000 000	75 000 000
Vergelee Reservoir Storage (29MI) (Loan)	-	-	-	17 000 000	17 000 000
Withoogte FW Storage (Loan)	-	-	4 000 000	32 000 000	36 000 000
Misverstand resource (CRR)	-	1 500 000	-	-	1 500 000
Withoogte WTW Phase 5 6 & 7 (Loan)	-	-	-	1 500 000	1 500 000
Total	105 703 188	138 194 961	61 336 146	125 086 399	430 320 694

These water projects are financed from the following sources:

	<u>2017/18</u> <u>Adjustment</u> <u>budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>Total</u>
CRR funding	47 521 749	127 249 996	-	8 800 000	183 571 745
External borrowings	-	-	59 499 992	110 650 000	170 149 992
Grants	58 181 439	10 944 965	1 836 154	5 636 399	74 588 957
Total	105 703 188	138 194 961	61 336 146	125 086 399	430 320 694

3.5 Water tariffs

The impact on the drought has and will impacted negatively on water tariffs for the consumers of Saldanha Bay municipality. Over the next 3 years water projects amounting to R428 million is budgeted for, with external borrowings as a substantial financing source. A total amount of R170 million will potentially be borrowed to fund these projects.

As a result of this, the water tariffs in 2018/19 will increase with 21% for water consumption and the monthly basic fee of R55.50 will increase with 80% to R100.

The detailed water tariffs for 2018/19 are provided in **Annexure D**.

3.6 Electricity tariffs

In terms of the Electricity Regulation Act 4 of 2006, The National Energy Regulator of South Africa (NERSA), issues distribution licences with conditions for the distribution of electricity. These conditions, amongst other, include the approval of tariffs. NERSA provides a guideline for municipal tariffs, and municipalities must then comply with this guideline of NERSA, to get approval for their electricity tariffs.

As part of the NERSA Electricity Tariff Approval for 2017/18 NERSA directed the municipality as follows:

- The municipality should devise a tariff structure that is aligned to its customer base for customers and municipal revenue protection;
- The municipality should gradually align both its high and low tariffs to the Energy Regulator's benchmark levels for the protection of customers and municipal revenue; and

- The municipality should reduce the number of its tariffs to a reasonable number in the next tariff cycle.

On 26 October 2017 the municipality sent NERSA a copy of its proposed tariff restructuring. At that stage a 22.15% average increase was used after the restructuring of the tariff structure. NERSA did not provide a response to the municipality's restructuring proposal.

On 26 January 2018 a workshop with Council was held to discuss the proposed tariff restructuring, as well as a 7.02% average increase, taking the tariff restructuring into account. This percentage was based on an indication from the Association of Municipal Electricity Utilities (AMEU) on the Eskom average tariff increase and methodology NERSA proposed for municipalities in the 2017/18 tariff guidelines.

The NERSA Consultation Paper on the *"Municipal Tariff Increase, Benchmarks and Proposed Timelines for Municipal Tariff Approval Process for the 2018/19 Financial Year"* was only issued on 28 February 2018. Comments was provided to NERSA on 12 March 2018 by the municipality before the deadline of 20 March 2018.

In terms of the NERSA timeline they will only make a decision during April 2018, and only then provide the municipality with guidelines. No communication has yet been received from NERSA.

Based on the information in the consultation paper, the average percentage tariff increase might only be 6.84%.

In addition, a high level cost-of-supply study was done by the municipality, based on a NERSA consultation paper: *"Cost of Supply Framework for Licenced Electricity Distributors in South Africa"*.

A formal tariff application was sent to NERSA on 9 February 2018. This included the high level cost-of-supply study, the proposed tariff restructuring and the proposed average tariff increase of 7.02% after the restructuring of the tariffs.

NERSA confirmed acceptance of the application, but indicated that they are not able to consider or assess the municipality's application for 2018/19 until such time that they have communicated the *"guideline and benchmarks for 2018/19"* to the municipality.

For purposes of preparation of the final budget, the 6.84% possible average increase was used.

3.7 Restructuring of the electricity tariffs

The restructuring proposals focus mostly on domestic and commercial tariffs. The industrial tariffs will be further restructured in the future once more clarity is available on the Eskom restructuring for municipal tariffs. The main changes in the new tariff structure is as follow:

- Domestic Consumers change from 4 blocks to 2 blocks;
- The introduction of a monthly service charge for domestic and commercial customers;
- The introduction of a capacity charge for domestic and commercial customers based on the amperage of the service connection;
- The domestic low customers (connection <30 Ampere will not have the service or capacity charge, but the energy charge will be higher);
- Where there is pre-paid metering, the service charge and the capacity charge will be credited to the municipal account of the property owner, and the electricity user will be able to purchase the energy component;
- Standard connection sizes will apply to domestic and commercial customers;
- The industrial or bulk customers will have a monthly service charge, a demand charge and an energy charge;
- The industrial and bulk customers will be split into Low Voltage (400V 3Ph), and Medium Voltage (11000v 3Ph) for further restructuring in future;
- For industrial and bulk customers, the demand charge will be reduced and the energy charge will be increased to make it more cost reflective as part of the process of restructuring;
- The introduction of an infeed tariff for customers that want to generate own electricity and feed access energy into the municipal grid. The conditions for this is covered in a separate municipal policy and guidelines.

In line with the direction of the energy regulator, the low income domestic customers are protected by the proposes domestic low tariff where there are no fixed monthly charges for the customer, and the customers identified in terms of the municipal indigent policy, will qualify for the 50-kWh free basic electricity per month.

The municipal revenue will be protected by the introduction of the service charge where all the other customers will pay towards the fixed cost component through the year and not only pay for energy during the holiday seasons.

The municipal revenue is further protected by the capacity charge based on the connection size where all customers contribute towards the maximum demand component payable to the bulk purchase accounts from ESKOM.

Customers are protected by being able to downscale their connection sizes and thereby reducing the fixed component of their monthly accounts.

The new restructured electricity tariffs for 2018/19 are provided in Annexure D.

3.8 Operating budget

A summary of the operating budget is provided in the table below.

Table 7 - Operating budget

	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
<u>REVENUE</u>				
Property rates	201 848 730	215 750 383	221 463 899	235 859 046
Service charges – Electricity	314 787 441	334 521 441	368 074 187	383 229 408
Service charges – Water	137 080 509	150 867 418	162 936 813	175 971 753
Service charges – Sanitation	57 488 384	62 635 103	68 898 613	75 788 473
Service charges – Refuse	60 444 189	66 487 654	73 136 423	80 450 061
Rental of facilities and equipment	5 666 070	6 232 677	6 606 638	7 003 039
Interest earned - external investments	44 442 446	41 310 024	40 700 004	40 700 004
Interest earned - outstanding debtors	12 272 284	13 069 980	13 871 190	14 721 576
Fines, penalties and forfeits	37 426 023	41 519 725	42 127 385	42 135 028
Licences and permits	1 420 128	1 148 031	1 216 914	1 289 927
Agency services	5 000 000	5 300 000	5 618 000	5 955 080
Grants recognised – operational	86 117 305	94 075 050	98 946 750	108 275 250
Other revenue	29 065 272	31 916 802	33 137 110	35 125 337
Revenue before capital grants	993 058 781	1 064 834 288	1 136 733 926	1 206 503 982
Plus: Capital grants and donations	104 560 423	46 318 498	39 645 547	69 940 744
TOTAL REVENUE	1 097 619 204	1 111 152 786	1 176 379 473	1 276 444 726
<u>LESS: EXPENDITURE</u>				
Employee related costs	331 548 194	362 612 887	378 376 957	397 197 987
Remuneration of councillors	11 489 684	12 153 717	13 004 477	13 914 791
Bad debts Written-off	51 582 588	56 069 710	58 663 025	62 182 801
Depreciation & asset impairment	136 123 810	140 762 315	149 208 039	158 160 523
Finance charges	23 078 761	21 100 000	19 956 808	30 852 324
Bulk purchases	306 629 352	329 426 674	372 874 856	385 419 555
Contracted services	87 847 409	110 635 659	114 442 503	118 677 031
Transfers and grants	3 970 501	3 722 174	3 871 061	4 025 903
Other expenditure	64 029 100	72 010 631	75 130 570	78 147 702
Other materials	35 803 476	40 758 518	42 387 030	44 080 799
TOTAL EXPENDITURE	1 052 102 875	1 149 252 285	1 227 915 326	1 292 659 416
SURPLUS/ (DEFICIT)	45 516 329	(38 099 499)	(51 535 853)	(16 214 690)

The main contributors to the operating revenue and operating expenditure of the 2018/19 financial year are as indicated in figure 1 and figure 2.

Figure 1 - Operating Revenue budget

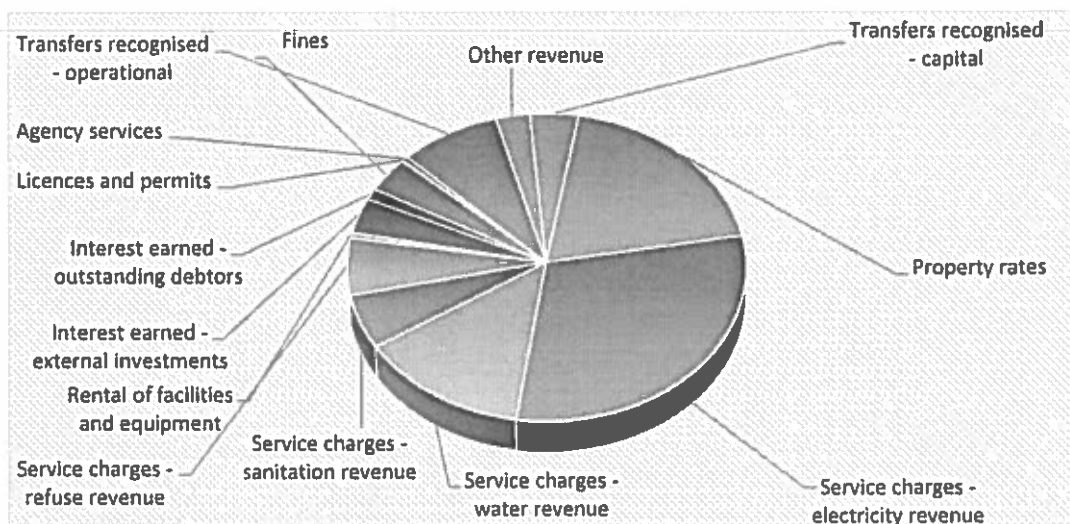
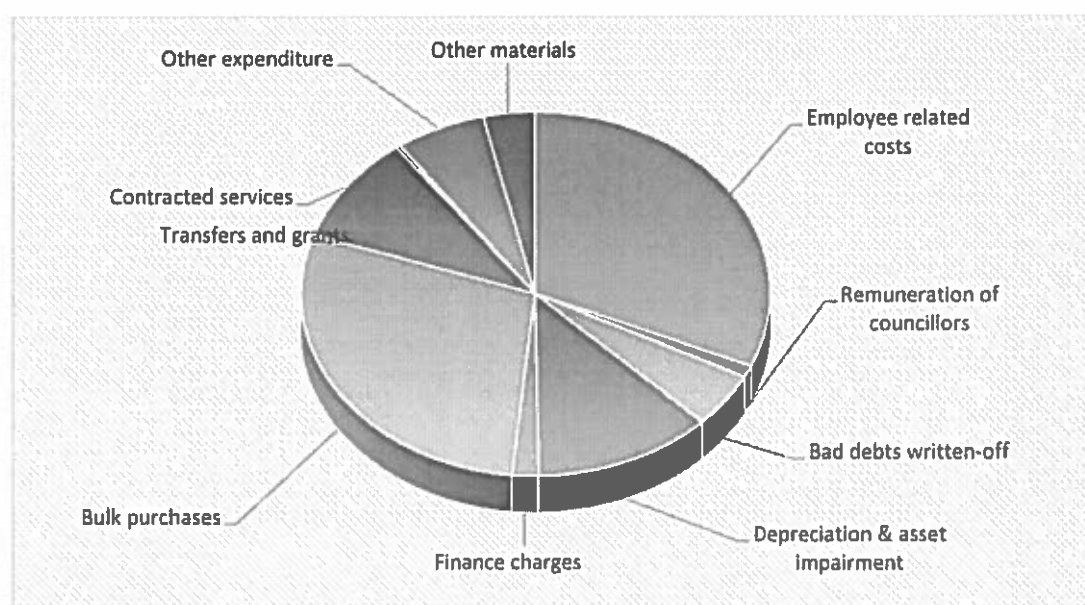


Figure 2 - Operating Expenditure budget



3.9 Budgeted operating deficit

The budgeted deficit for the 2018/19 MTREF period is R38 million, R 52 million and R 16 million respectively. The municipality is budgeting for a deficit as the depreciation charge is not fully cashed-back.

3.10 Capital budget - Infrastructure projects

National Treasury has urged municipality to prioritize spending on infrastructure. The summary per category of infrastructure projects over the MTREF is listed in the table below.

Infrastructure projects comprise 80% of the total capital budget in 2018/19, 84% in 2019/20 and 94% in 2020/21.

Table 8 - Infrastructure projects as % of total capital budget

<u>Asset category</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Roads, Pavements, Bridges & Stormwater	48 878 525	57 476 113	38 158 905	45 515 865
Water Reservoirs & Reticulation	105 703 188	138 373 341	61 336 146	125 086 399
Electricity Reticulation	21 933 696	19 298 432	18 433 133	27 433 865
Sewerage Purification & Reticulation	39 379 052	21 063 217	23 878 129	16 533 865
Refuse Sites	21 211 955	24 320 950	18 979 250	19 270 750
Other Infrastructure	714 000	4 410 035	3 005 000	2 005 000
TOTAL INFRA-STRUCTURE ASSETS	237 820 416	264 942 088	163 790 563	235 845 744
<u>Plus: Other assets</u>				
Establishment of Parks and Gardens	509 550	2 690 000	-	-
Libraries	38 000	-	-	-
Recreational Facilities	6 194 447	6 470 632	6 550 008	4 350 000
Clinics	-	-	-	-
Other community assets	29 892 402	8 170 008	5 480 004	1 050 000
Other Motor vehicles	9 922 744	12 450 004	6 970 000	1 600 000
Plant and Equipment	9 298 235	7 248 304	4 369 992	3 230 000
Office Equipment	1 974 169	2 951 910	292 000	253 500

<u>Asset category</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Security Measures	-	-	-	-
Other Land and Buildings	2 217 804	500 000	-	-
Other Assets	14 568 133	15 654 504	4 560 000	1 845 000
Fire Brigade	-	4 300 000	-	-
Intangible assets -- Software	7 034 631	3 762 984	3 280 364	3 300 000
Total Other assets	81 650 115	64 198 346	31 502 368	15 628 500
Total Budget	319 470 531	329 140 434	195 292 931	251 474 244
Infrastructure projects as % of total capital budget	74%	80%	84%	94%

3.11 Repairs and maintenance expenditure

Repairs and maintenance expenditure budget for 2018/19, 2019/20 and 2020/21 is R73 million, R76 million and R79 million respectively (see table below).

Under the mSCOA classification framework this expenditure is classified under the project segment only.

The amounts reflected as repairs and maintenance only represents materials and contracted services. No labour and vehicle cost incurred by the municipality is currently allocated to repairs and maintenance due to the absence of a proper costing system. The real repairs and maintenance is therefore higher than the amount reflected in the budget documents.

Table 9 – Repairs and maintenance expenditure

	<u>2017/18 Adjustment budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Repairs and maintenance	58 909 838	73 188 556	76 157 645	79 189 622
Increase from the previous year	35,7%	24,2%	4,1%	4,0%
Repairs and maintenance as a percentage of operating expenditure	5,6%	6,4%	6,2%	6,1%

3.12 Rates and tariffs

The proposed 2018/19 rates and tariff increase percentages has been provided in the table below. For comparability the years' increases are also provided.

Table 10 - Rates and tariffs for 2018/19

	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>
Property rates	6.5%	5%	6.5%	6.5%
Electricity	12.2%	7.64%	1.88%	6.84%
Water – consumption	8%	6%	7%	21%
Water – basic and availability charges	8%	6%	7%	80%
Refuse	12%	12%	8%	10%
Sewage	8%	7%	7%	10%
Sundry tariffs	8%	6%	10%	20%

The tariffs for the two outer years of 2019/20 and 2020/21 are not provided as it is not possible to estimate it with accuracy.

3.13 Explanation for tariff increases above 5.3%

MFMA Circular 91 requires that all increases in excess of the inflation target of 5.3% for 2018/19 must be explained and justified.

The tariff increases for all services and sundry tariffs all exceed the inflation target percentage of 5.3%.

When rates tariffs are determined it is calculated based on the premise that the cost must be recovered by the revenue the municipality expects to receive from its consumers.

The explanation of the above inflation increase is provided below:

a) Property rates increases with 6.5%.

Property rates are used by the municipality to provide basic services and to perform its functions as set out in schedules 4B and 5B of the Constitution of the Republic of South Africa, 1996. This includes installing and maintaining of streets, roads, sidewalks, storm drainage, building regulations, provision of local sport facilities, parks, recreational facilities and cemeteries to name a few.

The cost to perform these services will increase above the inflation target of 5.3%.

b) The explanation for the **Electricity** increase is provided in section 3.6 and 3.7.

c) The explanation for the **Water** increase is provided in sections 3.3 – 3.5.

d) **Refuse** increases with 10%

It is estimated that a tariff increase of 10% is required for this service to recover its cost.

e) **Sewage** will increase with 10%.

A tariff increase of 10% is required for this service to move towards the recovery of its cost. A phased-in approach is therefore followed.

f) **Sundry tariffs** will increase with 20%. The sundry tariffs, such as the rates charges on the municipal resorts, are low in comparison to the industry and a 20% increase is proposed.

3.14 Financial support provided to indigent households

Saldanha Bay Municipality provides free basic services to poor households as a means of poverty alleviation. This mainly provides support to households who are unable to pay, or struggle to pay for their basic services. This includes households with an income base below a determined threshold of R4 300, who will receive a 100% subsidy.

Further relief will be provided to households with an income between R4 300 and R5 350, who will receive a subsidy of 70%.

These consumers should apply to be registered as an indigent household in the indigent register in order to obtain this benefit.

Indigent households will in 2018/19 receive free electricity (50 electricity units per month), water (6 kilolitres per month), free refuse removal and free sanitation based on a developed erf size of 250m².

In respect of property rates, the first R50 000 value of all residential properties are exempted. In addition to this, a further R135 000 value of property is exempted from property rates for all indigent households, bring the total rebate to R185 000.

Support is also provided to public benefit organisations by subsidising 75% (60% previous year) of the monthly service account.

Child headed households are furthermore subsidised in the same manner as a 100% qualifying indigent household.

3.15 Financial support provided to pensioners

A special rebate on property rates is provided to pensioners based on their monthly income levels, which has been adjusted with approximately 6.5% from the previous year, which is indicated in the table below:

Table 11 - Financial support provided to pensioners

Monthly income range		Rebate percentage
R 0	R 4 020	100%
R 4 021	R 5 720	90%
R 5 721	R 6 350	80%
R 6 351	R 7 110	70%
R 7 111	R 8 000	60%
R 8 001	R 8 750	50%
R 8 751	R 9 530	40%
R 9 531	R 10 280	30%
R 10 281	R 10 920	20%
R 10 921	R 11 670	10%

3.16 Conclusion

The preparation of the 2018/19 budget for Saldanha Bay municipality was again a massive effort. It is always hard work compiling a budget, even without the many mSCOA and financial system challenges. The personnel in the budget department must receive special mention for their tireless efforts and dedication.

The main focus of the 2018/19 budget is without a doubt the water crisis. We trust and believe in God that He will provide in the coming rain season.

Then I will give you the rain for your land in its season, the early rain and the latter rain, that you may gather in your grain, your new wine and your oil (Deuteronomy 11:14 NKJV)

4. Section 4 – Other important information

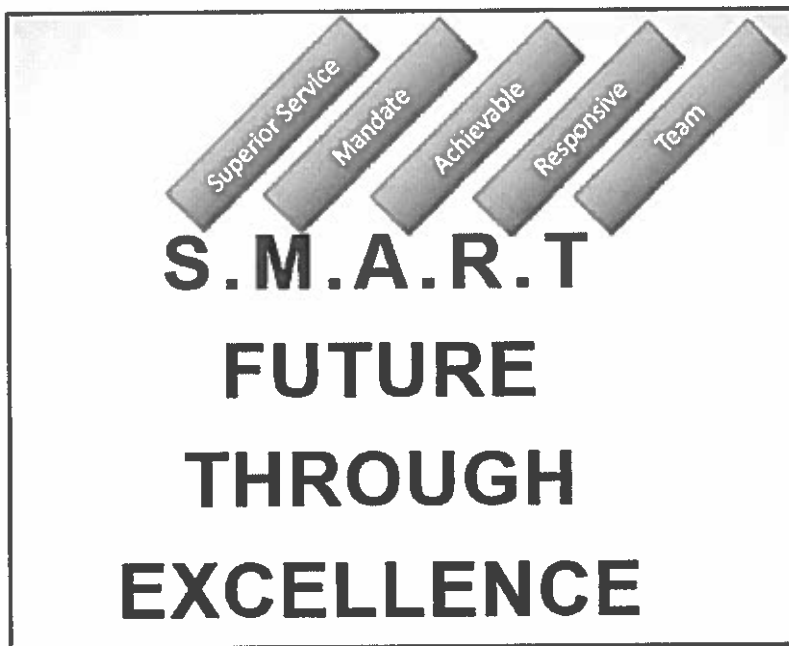
4.1 Vision, mission, strategic objectives and game changer obsessions

4.1.1 Vision

The strategic intent of Council over the next few years will be to enhance municipal service delivery and growth and development offerings.

The following vision has been adopted by the Council as the municipality's road map, indicating both what the municipality wants to become and guiding transformational initiatives by setting a defined direction for the municipality's growth:

Figure 3 – Vision of the Council



SMART is an acronym for the following aspects to give guidance to the formulation of Council's objectives:

- **Superior service** – The rendering of service which exceed normal expectation.
- **Mandate** – The effective and efficient execution of Council's mandate.
- **Achievable** – The setting of objectives which are realistically achievable.

- **Responsive** – The setting of objectives that respond to the needs of the public.
- **Team** – The promotion of a consolidated approach to address the challenges.

4.1.2 Mission

The following mission statement has been adopted by the Council to guide the actions of the Municipality, spell out its overall goal, provide a path, and guide decision-making. It serves to provide the framework or context within which the Council's strategies are formulated.

Saldanha Bay municipality is a caring institution that excels through:

- Accelerated economic growth for community prosperity
- Establishment of high quality and sustainable services
- Commitment to responsive and transparent governance
- The creation of a safe and healthy environment
- Long term financial sustainability

4.1.3 Strategic objectives

The Council has 10 strategic objectives to give effect to the vision and mission for the municipality and are based on the 5 game changer "obsessions" of Council. Whilst the mission statement provides direction for the municipality, the strategic objectives provide a way to measure progress toward realizing the ideals set by Council in the mission statement.

The 10 strategic objectives are:

1. To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors;
2. To facilitate an integrated transport system;
3. To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water, waste management and electricity);
4. To develop socially integrated, safe and healthy communities;
5. To maintain and expand basic infrastructure for economic development and growth;
6. To be an innovative municipality through technology, best practices and caring culture;

7. To be a transparent, responsive and sustainable decentralised administration;
8. To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet);
9. To embrace a nurturing culture amongst our team members to gain trust from the community; and
10. To ensure compliance as prescribed by relevant legislation.
11. The operating expenditure, capital expenditure and revenue per strategic objective linked to cost centre level is included in **Annexure J**.

4.1.4 Municipal Strategic focus areas

The Council has the following focus areas for achieving the vision and mission set out for the municipality:

1. Economic Development and Growth;
2. Customer Care;
3. Technology and Innovation;
4. Cleanliness; and
5. Youth.

These focus areas serve as the foundation and framework on which the municipality will be able to realise its vision, help to drive National and Provincial Government's agenda, expand and enhance its infrastructure, and ensure that all residents have access to the essential services they require.

4.2 Cost containment measures

The draft Municipal Cost Containment Regulation was gazetted on 16 February 2018. Comments are requested by National Treasury with a closing date of 30 March 2018.

In the Draft Regulations it is stated that the Regulation will take effect on 1 July 2018. A cost containment policy will be compiled once the final Cost Containment Regulations has been gazetted.

The draft Municipal Cost Containment Regulations document is attached as part of **Annexure H**.

4.3 Auditor General – audit outcomes

Saldanha Bay municipality has obtained “clean” audit status for the last three consecutive reporting years. Whilst a clean audit is no necessary a reflection on the service delivery performance of the municipality, or its financial performance, it does have a positive effect on the sentiment of the public, creditors and bank in terms of the commitment of the municipality to clean administration.

The audit outcomes history since 2012/13 are:

Table 12 – Auditor-General audit outcomes

Year	Outcome
2016/17	Clean Audit
2015/16	Clean Audit
2014/15	Clean Audit
2013/14	Unqualified
2012/13	Unqualified

4.4 Saldanha Bay Industrial Development Zone (SBIDZ)

The Saldanha Bay Industrial Development Zone, in line with the IDZ Regulations is operated by the Saldanha Bay IDZ Licencing Company (SOC) Limited (SBIDZ LiCo) as designated in the Government Gazette No. 36988 of 2013, is jointly funded and supported by the National Department of Trade and Industry and the Western Cape Provincial Department of Economic Development and Tourism.

The SBIDZ LiCo was formally awarded the Operator's Licence on 31 October 2013 for the establishment of an IDZ in Saldanha Bay, specifically focused on Oil & Gas, and Marine Repair & Fabrication Industries.

This marked the formal beginning of implementing a 30 year strategic initiative to utilise the existing Special Economic Zone enabling legislation to create an enabling environment to promote sustainable economic growth and job creation.

It is anticipated that in the medium-term the SBIDZ LiCo will continue to be funded via the current funding partners for the development of key infrastructure and to cover operational expenditure. Once the formal investor tenants are in place, the SBIDZ LiCo will supplement funding with self-sustaining rental income.

Whilst infrastructure development is a large funded component of the operation, SBIDZ LiCo undertakes a number of other strategic initiatives and activities in order to support the broader economic development and job creation mandate of the Zone.

These include;

- strategic stakeholder management;
 - community engagement;
 - business development (investor attraction and engagement);
 - commercial services (estate management); and
 - ease of doing business.
-

In respect of the three Saldanha Oil & Gas related Phakisa projects, Transnet is shortly to announce the preferred operator for the Off-Shore Supply Base which will add to the industry's purpose built infrastructure offering. The other two major infrastructure projects, namely Berth 205 and the Jetty project are said to be on track.

The national and provincial spotlight on Saldanha Bay has allowed a number of collaborative initiatives culminating in the Grow-net programme.

Grow-Net is an integrated enterprise and supplier development approach which will create a system to localise more opportunities by encouraging local SMME/supplier capability advancement, and make buying and selling of goods and services more efficient and accessible.

The TOGASI programme continues, which consists of a series of monthly talks on the Oil and Gas Services Industry, and is an effort to begin educating the local business fraternity on the industry requirements and focus areas.

In view of the strong focus on broader economic development and sustainable job creation, one of the capacity constraints facing the successful local outcome, is ensuring that there will be adequate local skills and business resources to support the investor industry requirements in the medium-term. The Provincial initiative, Operation Khulisa, is increasingly acting as a support in both the Enterprise Development and Skills arena.

Significant milestones attained to date are:

- The successful negotiation for the purchase of the IDC land situated in Saldanha Bay;
 - The installation of internal infrastructure on the IDC Land situated in Saldanha Bay;
 - Heads of Agreement in respect of the rental of the first phase (35h) of the TNPA owned land in the Port of Saldanha;
 - Heads of Agreement with the Saldanha Bay Municipality in respect of bulk services and the provision of certain services to Investors in the IDZ;
 - Scheduling of the SBIDZ LiCo as a "3D business enterprise" by National Treasury;
 - Assistance of the Economic Development Partnership to assist with the organisation of the local Business Community;
 - Completion of the "Voice of the Customer" study.
-

Future short term deliverables will include:

- Installation of infrastructure on the Port land;
- Building and tenanting of the access complex;
- Negotiation and setting up of the Free Port Operations, with the assistance of the Government Technical Advisory Centre (GTAC), which is an arm of National Treasury;
- Provision of serviced land;
- Setting up of streamlined investor procedures; and
- Up-skilling of labour and preparation of qualified suppliers through partnerships with National and Provincial Governments, including the SETAs.

4.5 Long term financial plan

Council has approved a 10-year long term financial plan on 26 May 2016 for the period 1 July 2016 – 30 June 2026.

The Western Cape Provincial Government has recently, in November 2017 and March 2018, appropriated grant funding for the review and compilation of a new 10-year plan from 1 July 2019 onwards.

The new long term financial plan will be submitted to Council in March 2019 for consideration and public input.

5. Section 5 - Annual budget tables

The following budget tables have been completed and are attached as **Annexure A**:

- Table A1 – Budget Summary;
- Table A2 – Budgeted Financial Performance (Revenue and Expenditure by standard classification);
- Table A3 – Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote);
- Table A4 – Budgeted Financial Performance (Revenue by Source and Expenditure by type);
- Table A5 – Budgeted Capital Expenditure by Vote, standard classification and funding;
- Table A6 – Budgeted Financial Position;
- Table A7 – Budgeted Cash Flows;
- Table A8 – Cash Backed reserves / accumulated surplus reconciliation;
- Table A9 – Asset Management; and
- Table A10 - Basic service delivery measurement.

The supporting schedules SA1 to SA 38 are also included as part of **Annexure A**.

PART 2 – SUPPORTING DOCUMENTATION

6. Section 6 - Overview of annual budget process

The overview of the 2018/19 Budget and IDP process is provided in the table below.

Table 13 - Overview of annual budget process

Budget and IDP timetable approved by Council	24 August 2017
IDP public participation process	18 September 2017 – 16 October 2017
Special budget workshops	12 - 13 September 2017 2 – 6 October 2017
Budget steering committee meetings	28 September 2017 23 November 2017
Departments requested to budget in accordance with IDP needs	9 October 2017 – February 2018
Table Budget and IDP to Council	28 March 2018
Advertise budget in the local newspaper	29 March 2018
Public participation meetings	3 -10 April 2018
Closing of comments and representations on the draft IDP and budget	25 April 2018
LGMTEC engagement with Provincial Treasury	26 April 2018
Workshop with Council on budget related policies and inputs received from the public	3 May 2018
Consideration of final budget approval by Council	31 May 2018

7. Section 7 - Overview of the alignment of the annual budget with the IDP

The IDP serves as a guideline to the municipality for the correct budget and resource allocations in ensuring that it meets the needs of its residents. It is also an integrated inter-governmental system of planning which requires the involvement of all three spheres of government. Some contributions have to be made by provincial and national government to assist municipal planning and therefore government has created a range of policies and strategies to support and guide development and to ensure alignment between all spheres of government as stated by the section 24 of the Municipal Systems Act.

This alignment has been summarised in the table below.

The IDP drives the strategic development of SBM. The Municipality's budget is influenced by the municipal strategic focus areas and strategic objectives identified in the IDP. The Service Delivery Budget Implementation Plan (SDBIP) ensures that the Municipality implements programmes and projects based on the IDP targets and associated budgets.

The budget has been compiled in accordance with the municipality's IDP document. Also refer to tables SA3, SA4 and SA5 which is aligned with the strategic objectives and goals of the municipality.

Table 14 - Municipal budget alignment

National KPA	Municipal Strategic Focus Area	Municipal Strategic Objective/ Performance Objective	National Medium Term Strategic Framework (MTSF) Service Delivery Outcomes	National Integrated Urban Development Framework (IUDF)
Local Economic Development	Economic Development and Growth	To diversify the economic base of the municipality through industrialization, de-regulation, investment facilitation, tourism development whilst at the same time nurturing traditional economic sectors	Decent employment through inclusive economic growth	Growth
Basic Service Delivery	Customer Care	To facilitate an integrated transport system	An effective, competitive and responsive economic infrastructure network	Inclusion and access
		To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water waste management and electricity)		
		To maintain and expand basic infrastructure for economic development and growth		
		To develop socially integrated, safe and healthy communities	All people in south Africa protected and feel safe Sustainable human settlements and improved quality of household life	

National KPA	Municipal Strategic Focus Area	Municipal Strategic Objective/ Performance Objective	National Medium Term Strategic Framework (MTSF) Service Delivery Outcomes	National Integrated Urban Development Framework (IUDF)
		To develop socially integrated, safe and healthy communities		
	Cleanliness	To provide and maintain superior decentralized consumer services (Water, sanitation, roads, storm water waste management and electricity)	Protection and enhancement of environmental assets and natural resources	
	Youth	To develop socially integrated, safe and healthy communities.	A development-orientated public service and inclusive citizenship	
Municipal Transformation and Institutional Development	Customer Care	To be a transparent, responsive and sustainable decentralised administration	A responsive and accountable, effective and efficient local government system A skilled and capable workforce to support inclusive growth	Governance
		To embrace a nurturing culture amongst our team members to gain trust from the community	A development-orientated public service and inclusive citizenship	
Municipal Financial Viability and Management	Customer Care	To be a transparent, responsive and sustainable decentralised administration	A responsive and accountable, effective and efficient local government system	Governance
Good Governance and Public Participation	Technology and Innovation	To be an innovative municipality through technology, best practices and caring culture	A responsive and accountable, effective and efficient local government system	Governance
		To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet)		
	Customer Care	To ensure an effective communication system. (Media, newsletter, marketing, IT, talking to clients, participation, internet).	A responsive and accountable, effective and efficient local government system	Governance
		To ensure compliance as prescribed by relevant legislation.	A responsive and accountable, effective and efficient local government system	Governance Spatial integration

8. Section 8 - Measurable performance objectives and indicators

This budget is indicative of our commitment to achieving the objectives of local government set out in the Constitution of the Republic of South Africa and to do so in an efficient, effective and sustainable manner. These commitments are entrenched in our mission, vision and value statements and as such are reflected so in our budget and services delivery processes.

The MTREF has been compiled in such a manner to ensure sustainable service delivery and to invest in infrastructure that will ensure growth over the medium term to long term.

The measurable performance objectives are indicators included in the budget tables SA4 and SA7.

9. Section 9 - Overview of budget related policies

The proposed amendments to the budget related policies and the supply chain management policy are attached as **Annexure H**.

10. Section 10 - Overview of budget assumptions

The following assumptions were used in the preparation of the budget:

10.1 General assumptions

1. The average estimated CPIX that were used compiling the budget was 5.3% for 2018/19, 5.4% for 2019/20 and 5.5% for 2020/21 as guided by MFMA circular 91. All expenditure types do however not increase with a fixed or similar percentage;
2. Departments were required to budget in terms of general cost containment measures. Directors and management has to apply strict control over non-priority spending;
3. The 3-year Salary and Wage Collective Agreement implemented from 1 July 2015 will come to an end on 30 June 2018. The new 3-year wage curve process is under consultation. In the absence of other information from the South African Local Government Bargaining Council, employment costs for 2018/19 is based on an estimated increase of a possible Bargaining council agreement of CPIX plus 1% (that is 5.57%

plus 1%), plus the normal notch increases, and 6% for the two outer years of the MTREF period.

4. The EPWP grant was based on the DORA allocation and is limited to R 2.055 million for 2018/19;
5. An increase of 15% was provided for the bulk water purchases tariff although budgeted for 10% less bulk purchases of water, due to the water crisis and water conservation efforts;
6. An increase of 7.32% was provided for the bulk electricity purchases;
7. An amount of R 46.8 million for 2018/19, and R46 million for the two outer years is budgeted as a cash-backed portion of depreciation that will be transferred to the CRR over the MTREF; and
8. The external loans to be taken up to fund the capital budget will be as follows:
 - 2018/19 – No new loans, however roll-overs of R 6 286 984 from 2017/18;
 - 2019/20 – R 104 500 000 new proposed external loan for Water projects;
 - 2020/21 – R 130 500 000 new proposed external loan for Water projects.

10.2 Revenue and tariff increase assumptions

Grants allocation has been included as follows in this budget:

- National Grants: In accordance with Division of Revenue Bill;
- Provincial Grants: In accordance with the Provincial Gazette;

The following principles and tariff increases, based on the cost reflectiveness of the tariffs are proposed:

- CPIX and affordability by community taken into account, but cost reflective;
- Electricity = 6.84% (*with a free 50 kWh per month to indigent households only, which is to be financed from the Equitable share*);
- Water = Consumption 21% (*with 6 kilolitres plus the basic levy for water free of charge to only indigent households*);
- Water basic and availability fees: Increase with 80% to cover fixed costs such as interest and redemption on external loans
- Refuse = 10% - to ensure cost reflective tariffs;
- Rates = 6.5%;

- Sewerage = 10% - To move towards cost reflective tariffs;
- Sundry tariffs = 20% - Rental of halls, building plan fees, etc.

11. Section 11 - Overview of budget funding

The budget must be funded from actual revenue to be collected during the financial year and must be cost reflective. The Operating budget is funded from Revenue as indicated in the relevant A schedules attached.

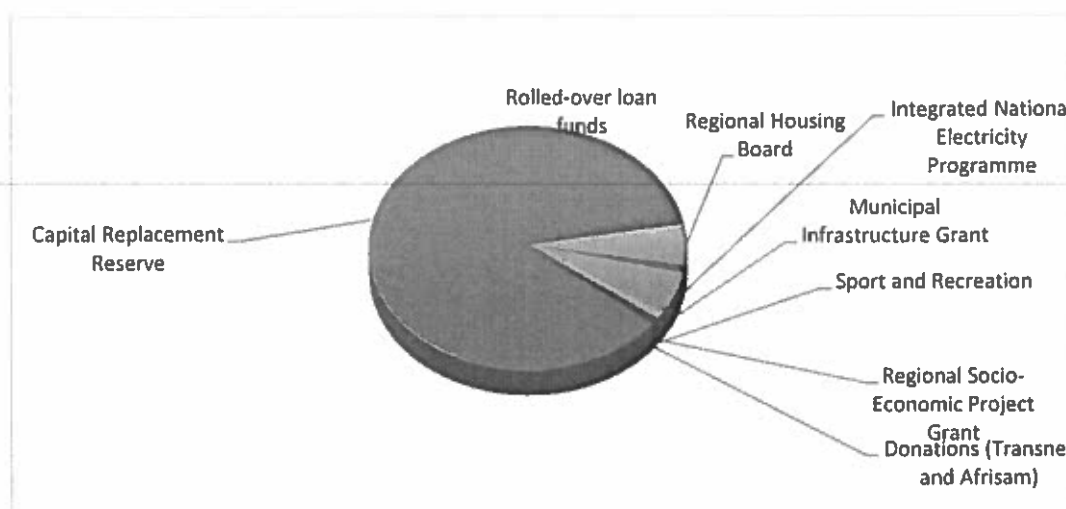
The 3 year MTREF capital budget is R775 million. The capital budget is funded from various sources of which the Capital Replacement Reserve is the biggest contributor. The 2018/19 MTREF capital budget will deplete the Capital Replacement Reserve, even if an additional R235 million is to be borrowed over the next three years. It is estimated that the CRR's balance will be only **R20 million** at the end of 2020/21.

A summary of the capital budget funding sources is provided in the table below:

Table 15 – Funding sources of the capital budget

<u>Sources of funding</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19 Budget</u>	<u>2019/20 Budget</u>	<u>2020/21 Budget</u>
Capital Replacement Reserve	179 551 058	276 537 939	51 147 360	51 038 500
Rolled-over loan funds	20 971 297	6 283 997	-	-
External Financing Fund (Annuities)	17 822 852	-	104 500 024	130 495 000
Regional Housing Board (Provincial)	8 897 689	18 944 548	15 301 297	46 969 994
Integrated National Electricity Programme	-	3 000 000	3 200 000	3 200 000
Municipal Infrastructure Grant (National)	20 792 648	18 145 950	18 444 250	19 270 750
Regional Socio-Economic Project Grant	7 356 439	3 300 000	2 700 000	500 000
Vredenburg Urban Revitalisation Grant	4 961 772	-	-	-
Municipal Drought relief grant	23 310 000	-	-	-
Sport and Recreation	-	228 000	-	-
Fire Service capacity grant	800 000	-	-	-
Municipal Service Delivery Capacity Grant	400 000	-	-	-
Donations (Transnet and Afrisam)	979 552	2 700 000	-	-
Contributed assets – IDZ	33 627 224	-	-	-
Total	319 470 531	329 140 434	195 292 931	251 474 244
Housing grants for top structures (on agency basis – not in operating budget)	35 266 000	15 505 452	26 258 703	5 700 006

Figure 4 - Funding sources of the capital budget



11.1 Capital Replacement Reserve (CRR)

The municipality has set aside cash to replace assets or to acquire new assets. Since the implementation of General Recognised Accounting Practices (GRAP), and the subsequent implementation of depreciation charges in local government the capital replacement reserve's contributions is part of the depreciation charges. With the unbundling of infrastructure assets when GRAP was initially implemented the value of Property Plant and Equipment increased substantially. The status of the CRR is provided in the table below.

Table 16 – Capital Replacement Reserve

	<u>2017/18</u> <u>Adjustment</u> <u>budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Opening balance on 1 July	158 290 413	174 987 355	249 400	10 102 036
<u>Plus: Contributions</u>				
Cash backed depreciation	44 156 154	46 800 000	46 000 000	46 000 000
Additional transfer from accumulated surplus	81 843 846	55 000 000	20 000 000	20 000 000
Contributions	126 000 000	101 800 000	66 000 000	66 000 000

	<u>2017/18</u> <u>Adjustment</u> <u>budget</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Transfers to)/ from employee benefits obligation	51 958 000	-	(5 000 000)	(5 000 000)
<u>Less:</u> Capital Spending	(179 551 058)	(276 537 955)	(51 147 364)	(51 038 500)
<u>Plus:</u> Grant funding	18 290 000	-	-	-
Closing balance on 30 June	174 987 355	249 400	10 102 036	20 063 536

Over the years the capital replacement reserve was maintained in a responsible manner allowing the municipality to acquire assets through this internal funding source and without too much reliance on external borrowings and grants. When the capital budget was not spent in its entirety for a particular year, the funds were carried forward to complete the projects.

The capital replacement reserve is depleted and in future capital expenditure funded from the capital replacement reserve will be limited to the annual amount of cash backed depreciation, plus capital contributions received.

A history of the capital budget expenditure has been provided below as well as the budgeted estimates up to 2020/21. It is estimated that at the end of this 12-year period the municipality would have invested R2.1 billion into capital projects.

The capital contribution and land sales are ring-fenced to be utilised for the specific projects to be funded from the capital contributions and land sales that will only be used to fund land purchases and property development.

Table 17 – History: Capital budget versus actual expenditure

<u>Year</u>	<u>Actual/ Estimate</u>	<u>Capital Budget</u>	<u>Capital Expenditure</u>	<u>%</u>
2009/10	Actual	160 673 000	62 662 470	39%
2010/11	Actual	183 265 000	109 959 000	60%
2011/12	Actual	133 213 000	101 241 880	76%
2012/13	Actual	196 544 000	139 546 240	71%
2013/14	Actual	208 661 530	143 976 456	69%
2014/15	Actual	236 336 670	226 883 203	96%
2015/16	Actual	215 809 476	145 951 261	68%

<u>Year</u>	<u>Actual/ Estimate</u>	<u>Capital Budget</u>	<u>Capital Expenditure</u>	<u>%</u>
2016/17	Actual	232 280 911	200 678 559	86%
2017/18	Estimate	319 470 531	303 497 004	90%
2018/19	Estimate	329 140 434	296 226 391	90%
2019/20	Estimate	195 292 931	175 763 638	90%
2020/21	Estimate	251 474 244	226 326 820	90%
TOTAL		2 662 161 727	2 132 712 922	80%

11.2 Housing Development Fund

The housing development fund is administered in terms of the Housing Act, Act 107 of 1997. The status of the housing development fund is provided below. This funding source is insignificant in its contribution to the capital budget.

11.3 External loans

Provision is made in the two outer years of the 2018/19 MTREF for possible new loans of R235 million. This includes R105 million in 2019/20 and R130 million in 2020/21 respectively. Council has not committed itself legally as yet, and a formal decision on this will be made during the 2019/20 budget planning cycle.

Table 18 – Summary external loans

<u>Year</u>	<u>Own revenue</u>	<u>Opening balance</u>	<u>Redemption</u>	<u>New and proposed new loans</u>	<u>Closing balance</u>	<u>Loan as percentage of Own revenue</u>
2012/13 Actual	591 732 275	65 463 190	-11 903 594	-	53 559 596	9%
2013/14 Actual	621 647 918	65 785 639	-12 189 934	-	53 595 705	9%
2014/15 Actual	668 366 225	53 595 705	-11 046 527	-	42 549 178	6%
2015/16 Actual	800 983 969	42 549 178	-7 431 794	47 060 000	82 177 384	10%
2016/17 Actual	849 433 732	82 177 384	-13 214 073	58 180 000	127 143 311	15%
2017/18 Adjustment budget	906 941 695	127 143 311	-11 424 000	17 822 852	133 542 163	15%
2018/19 Budget	970 759 238	133 542 163	-9 507 347	-	124 034 816	13%
2019/20 Budget	1 037 787 176	124 034 816	-10 522 884	104 500 024	218 011 957	21%
2020/21 Budget	1 098 228 732	218 011 957	-13 256 879	130 495 000	335 250 078	31%

Section 7 of the Budget and funds and reserve policy of the municipality states that *“External loans should not exceed 25% of own revenue (total revenue less total grants)”*

If the loan of R130 million will be taken up in the 2020/21 year, this policy requirement will not be adhered to.

However, as aforementioned during the 2019/20 preparation process, this will be closely monitored.

12. Section 12 - Expenditure on allocations and grant programmes

The total grants to be received for 2018/19 comprises R 140 million, and for the two outer years are R 139 million and R 178 million respectively. The split between the various grants are listed below.

Table 19 - Grants allocations

	<u>Classification</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19 Budget</u>	<u>2019/20 Budget</u>	<u>2020/21 Budget</u>
<u>National DORA grants</u>					
Finance Management Grant	Operating	1 509 996	1 550 000	1 550 000	1 550 000
Finance Management Grant	Capital	39 996	-	-	-
Municipal Infrastructure Grant	Capital	18 702 651	18 145 950	18 444 250	19 270 750
Municipal Infrastructure Grant	Operating	984 348	955 050	970 750	1 014 250
Integrated Electrification Programme	Capital	-	3 000 000	3 200 000	3 200 000
Water Services Infrastructure Grant	Capital	2 000 000	-	-	-
Expanded Public Works Programme	Operating	1 500 000	2 055 000	-	-
Equitable Share	Operating	71 510 988	80 432 000	88 328 000	97 483 000
Total National DORA grants		96 247 979	106 138 000	112 493 000	122 518 000
<u>Provincial grants</u>					
Housing and Human Settlement	Capital	8 897 689	18 944 548	15 301 297	46 969 994
Accelerated Community Infrastructure Programme	Capital	-	-	-	-
Cultural affairs: Library service	Operating	6 768 996	7 243 000	7 634 000	8 054 000
Community Development Worker Grant	Operating	74 000	74 000	74 000	74 000
Regional Socio-Economic Project	Capital	7 356 439	3 300 000	2 700 000	500 000
Regional Socio-Economic Project	Operating	500 004	-	-	-
Financial Management Support	Operating	1 554 191	780 000	280 000	-
Municipal System Improvement Grant	Capital	50 000	-	-	-
Thusong Centre	Operating	54 204	-	110 000	100 000
Proclaimed Main Roads Grant	Operating	126 996	126 000	-	-
Sports and Recreation	Capital	-	228 000	-	-

	<u>Classification</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19 Budget</u>	<u>2019/20 Budget</u>	<u>2020/21 Budget</u>
Vredenburg Urban Revitalisation grant	Operating	409 058	-	-	-
Vredenburg Urban Revitalisation grant	Capital	4 961 772	-	-	-
Municipal Drought Relief Grant	Capital	23 310 000	-	-	-
Fire Service capacity grant	Capital	800 000	-	-	-
Municipal Service Delivery Capacity Grant	Capital	400 000	-	-	-
Other: Financial Management		208 146			
Environmental Affairs and Development Planning		470 520			
WC Financial Management Capacity Building grant	Operating	-	360 000	-	-
Total Provincial grants		55 942 015	31 055 548	26 099 297	55 697 994
<u>Other grants and donations</u>					
Donations Transnet	Capital	-	-	-	-
Donations Afrisam	Capital	979 551	2 700 000	-	-
Dontation IDZ	Capital	33 627 224	-	-	-
Other Donation (330)	Operating	-	-	-	-
Saldanha steel funds/Social Community investment	Operating	-	-	-	-
SETA Grants	Operating	445 854	500 000	-	-
Total other grants and donations		35 052 629	3 200 000	-	-
TOTAL GRANTS		187 242 623	140 393 548	138 592 297	178 215 994
<u>Split between:</u>					
Operating grants		86 117 301	94 075 050	98 946 750	108 275 250
Capital grants		101 125 322	46 318 498	39 645 547	69 940 744
TOTAL GRANTS		187 242 623	140 393 548	138 592 297	178 215 994

Excluded from the grants above, is the Provincial housing grant for the erection of top structures. Because the municipality act as an agent, the accounting treatment of these grants requires that it not be treated as Revenue. It is allocated to a control account where the grant receipts are netted of against all expenditures made against this grant. It is for this reason that it was also not included in the operating budget as revenue or expenditure.

The total grant that was allocated to the municipality over the MTREF is provided in the table below.

Table 20 – Provincial housing grants

	<u>2017/18 Adjustment budget</u>	<u>2018/19 Budget</u>	<u>2019/20 Budget</u>	<u>2020/21 Budget</u>
Housing grants top structures	35 266 000	15 505 452	26 258 703	5 700 006

13. Section 13 – Transfers and grants made by the municipality

The total transfers and grants amounts to R3 722 174 in 2018/19, R3 871 061 in 2019/20 and R4 025 903 in 2020/21 respectively. See SA21 for a listing of these transfers and grants.

14. Section 14 - Councillor allowances and employee benefits

This is contained in supporting schedule table SA22 and SA23. A summary of the employee related cost, excluding councillors salaries and allowances has been provided in the table below.

Table 21 – Employee cost percentages

<u>Year</u>	<u>Salary cost</u>	<u>Own revenue</u>	<u>Total operating expenditure</u>	<u>Percentage of own revenue</u>	<u>Percentage of total operating expenditure</u>
2017/18 - Adjustment budget					
	331 548 194	993 058 781	1 052 102 875	33,4%	31,5%
2018/19 - Budget	362 612 887	970 759 238	1 149 252 285	37,4%	31,6%
2019/20 - Budget	378 376 957	1 037 787 176	1 227 915 326	36,5%	36,5%
2020/21 - Budget	397 197 987	1 098 228 732	1 292 659 416	36,2%	30,7%

15. Section 15 - Monthly targets for revenue expenditure and cash flows

This is contained in supporting schedule table SA25 and SA30

16. Section 16 - Annual budgets and sdbip

The final service delivery and budget implementation plans (sdbip) will be dealt with after the budget is finally approved to be submitted to the Mayor within 14 days after the approval of the budget and approved by the Mayor within 28 days after the approval of the budget.

17. Section 17 - Contracts having future budgetary implications

It is required to disclose in the budget documentation any contracts that will impose financial obligations on the municipality beyond the three years covered by the 2015/16 MTREF. The detail of this is included in supporting tables SA32 and SA33.

18. Section 18 - Capital expenditure details

The detailed capital budget per Ward is included in the budget documents as **Annexure C**. More detail on the Capital Budget is contained in Supporting tables SA34a; SA34b, SA34c; SA35; SA36.

The capital budget for 2018/19 comprises R329 million, and for the two outer years are R195 million and R 251 million respectively. The summary of the capital budgets per Main Vote and per Ward is listed below in **table 22**, **table 23**, **figure 5** and **figure 6** respectively.

Table 22 - Capital budget per vote

<u>Directorate</u>	<u>2017/18 Adjustment budget</u>	<u>2018/19 Budget</u>	<u>2019/20 Budget</u>	<u>2020/21 Budget</u>
Financial Services	1 058 850	1 362 104	1 070 000	645 000
Community & Operational Services	11 548 018	19 592 736	10 042 012	7 443 500
Infrastructure & Planning Services	272 477 988	280 903 100	171 570 551	236 480 744
Corporate & Public Safety Services	15 144 918	11 942 414	2 405 000	-
Office of the Municipal Manager	90 000	229 300	-	-
Council	50 000	223 300	-	-
Economic Development and Strategic Services	19 100 757	14 887 480	10 205 368	6 905 000
TOTAL	319 470 531	329 140 434	195 292 931	251 474 244

Figure 5 - Capital budget per vote

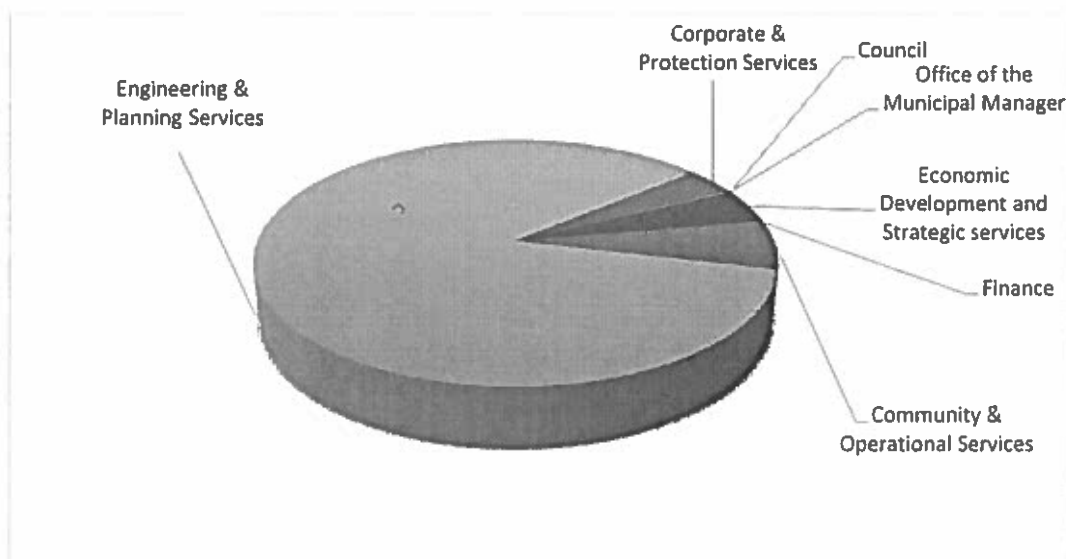
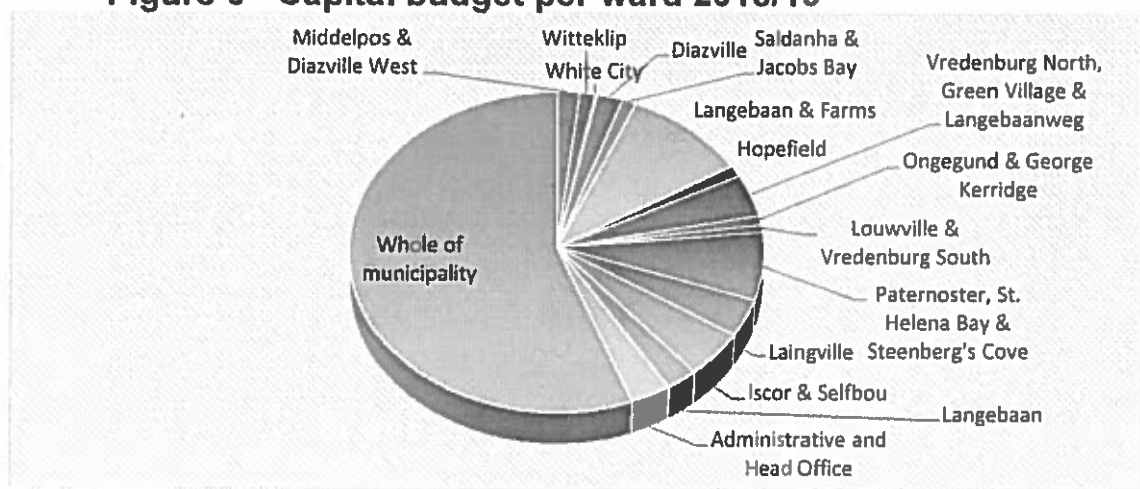


Table 23 - Capital budget per ward

Ward	2017/18 Adjustment budget	2018/19 Budget	2019/20 Budget	2020/21 Budget
Middelpos & Diazville West	2 562 503	5 740 000	3 900 008	17 350 799
Witteklip	200 000	3 998 000	8 820 018	11 577 768
White City	13 775 063	525 000	200 000	200 000
Diazville	1 210 666	6 823 600	5 900 004	3 850 000
Saldanha & Jacobs Bay	5 105 139	3 701 900	4 040 000	7 730 000
Langebaan & Farms	34 329 455	33 283 845	16 846 496	21 244 927
Hopefield	5 066 598	3 644 996	700 504	780 000
Vredenburg North, Green Village & Langebaanweg	8 241 363	13 949 397	8 740 004	3 540 000
Ongegund & George Kerridge	4 678 000	3 160 838	190 000	190 000
Louwville & Vredenburg South	10 592 308	3 599 996	1 550 004	2 150 000
Paternoster, St. Helena Bay & Steenberg's Cove	15 202 252	21 149 992	3 859 996	3 350 000
Laingville	19 369 656	13 288 214	1 710 000	200 000
Iscor & Selfbou	7 987 962	14 670 000	18 281 279	200 000
Langebaan	18 456 977	7 974 992	12 900 012	4 500 000
Administrative and Head Office	14 046 750	10 115 694	5 430 368	5 010 000
Whole of municipality	158 635 839	183 513 970	102 224 238	169 600 750
TOTAL	319 470 531	329 140 434	195 292 931	251 474 244

Figure 6 - Capital budget per ward 2018/19



19. Section 19 - Legislation compliance status

All relevant legislations and regulations have been implemented. The applicable legislation and circulars considered were:

- Sections 15 – 33 of the MFMA;
- MFMA circulars 10, 12, 13, 14, 19, 28, 31, 45, 48, 51, 54, 58, 59, 64, 66, 67, 70, 72, 74, 75, 78, 79, 82, 85, 86, 89 and 91.
- Municipal Budget and Reporting Regulations, 2009.

The most recent budget circular is included in the budget documentation.

20. Section 20 - Other supporting documents

20.1 Service Level Standards

In terms of MFMA circulars 72, 75, 78 and 79 the municipality must adopt service standards as it provides transparency in understanding performance indicators. Local government is mostly service delivery orientated and as such need to be clear on what the public can expect from the municipality as a service delivery standard.

The service delivery standards set are attached as **Annexure "I"** and must to be approved by council.

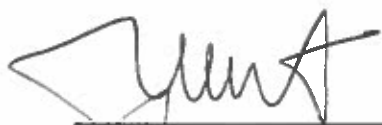


MS M CORNETT

MANAGER: BUDGETING

22.5.18

DATE



MR S ROETS

SENIOR MANAGER: FINANCIAL MANAGEMENT

22/5/18

DATE



MR S VORSTER

CHIEF FINANCIAL OFFICER

22/5/18

DATE



COUNCILLOR A VENTER

PORTFOLIO COUNCILLOR: FINANCE

22/5/18.

DATE